Shared Services Can Ignite Transformation in Government

FEBRUARY 24, 2022

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> **Leaders at federal, state, and local levels can overcome government's unique obstacles and reap the benefits of achieving their shared-services objectives.**

For decades, the private sector has accelerated transformations by implementing a shared-services approach. Companies have been able to not only reduce costs but also improve processes, better manage risks, and enhance the experience of customers and employees.

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Looking to reap these same benefits, government leaders at federal, state, and local levels have tried to follow suit, but they have met with unique obstacles and constraints that have led to mixed results. While there have been some notable shared-services successes, a lack of budget flexibility and too few incentives to make the transition have generally made it difficult to secure the broad stakeholder agreement required for these efforts to succeed. In addition, committing to a near-term investment for a future payoff—one that is unlikely to come within the current election cycle or be immediately visible to the public—can be politically risky for elected officials.

Despite these constraints, examples of successes in government entities prove that shared services can be implemented and can be a catalyst to transforming a government. What did these government entities do differently? Like private sector companies that have made this transformation, these entities have taken a practical three-pronged approach:

- They adopted common standards.
- They offered meaningful incentives for both providing and adopting shared services.
- They held shared-services providers accountable for service quality in order to limit the risk.

Each of these actions are more challenging to accomplish in the public sector because they must be implemented around unique government constraints. But with the right support, these actions can be accomplished. By taking the same three-pronged approach, government leaders can realize their shared-services objectives, which, in turn, will help them provide better services, make better use of taxpayers' money, and, ultimately, transform government.

Adopting Common Standards

Historically, many government entities have met with unique obstacles in the quest to share HR, finance, procurement, IT, legal, and other services. One of the foremost obstacles has been the varied and specific nature of their missions. Government entities provide an incredibly broad array of services, such as preserving the environment, promoting the health of citizens, educating children, and keeping our streets safe. Understandably, government leaders have looked at the differences in these missions and the associated work, legislative and regulatory requirements, and citizen "customers" and assumed that these differences require dedicated support groups. However, as large multinational companies have demonstrated, even with broad portfolios of products and activities, most support services are similar enough to be shared, buttressed by selective workarounds in the rare instances of unique needs.

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To identify what is truly unique, the leaders of a central group (for example, a state budget office) should first establish a standard way for entities to document their processes and requirements across all functions. After each function has mapped out its work, the central group should bring together the individual function heads from a particular department, analyze the results of their efforts, and determine which processes and requirements not only are truly unique but also must be maintained independently. Reaching agreement on this point can be challenging. However, in our experience, it can be achieved by laying out a clear cost-benefit tradeoff in terms of what will be gained through shared-services adoption and a more standardized approach, and what will be lost through more uniformity. Through making the tradeoff concrete, stakeholders will typically agree that the majority of processes and requirements can be handled by an internal or third-party shared-services provider.

An example of a successful shared-services deployment is the US Department of the Treasury's Office of Financial Innovation & Transformation (FIT), which took such an approach when it defined standards for financial management. And in doing so, FIT was able to clarify the unique legislative requirements of the Internal Revenue Service, compared with the needs for the rest of the Treasury. FIT also identified which of its organizations had more stringent cybersecurity requirements. After defining the department's financial processes and requirements, the Treasury was able to engage third parties (such as Oracle, SAP, and CGI) as shared-services providers. These companies' financial management solutions helped the department decrease the costs associated with developing and maintaining such solutions, increase the amount of data that could be shared across entities to inform decision making, and create opportunities to streamline processes and IT systems.

In a similar vein, creating common data standards across government entities is also critical to enabling the shift to a shared-services approach. The leaders of a central group should work with departments to adopt data standards, such as those that Congress recognized with the passage of the Grant Reporting Efficiency and Agreements Transparency Act. This legislation aims to minimize variations in how entities at the federal level identify grant recipients and monitor their performance. The use of multiple data structures for the same type of data makes it more difficult to create standard reports on a given area, and it ultimately complicates the process of moving duplicate or similar business processes to a shared-services provider.

Offering Incentives

In a private sector company, a group is often created or designated to take on the burden of providing a shared service for the larger enterprise, and it is a singular mission for that group. In the public sector, however, this burden is often added on

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top of an existing mission and comes with no additional resources or upside. Understandably, with few incentives to take on the additional burden, leaders have shied away from assuming this responsibility.

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When a government entity operates a shared service, in addition to furnishing the service (such as operating a call center, monitoring new external communications channels, or tracking various initiatives), the provider typically assumes responsibility for administering and meeting the service level agreements of the customers, which adds a new level of risk to the government entity. If a system goes down, for example, both the provider and the government entity overall are held accountable, even if the interruption doesn't impact their ability to deliver on their core mission. In addition, the government entity that operates a shared service often requires the provider to implement new governance structures, creating an additional burden.

Although a department could hire talent to meet the needs of customer entities and adopt technology that mitigates some risks (cloud services are highly reliable, for instance), department leaders are well aware that internal shared-services providers often struggle to receive sufficient funding to cover these expenses. Government leaders can turn the tide by offering the following incentives to encourage entities to provide shared services:

- **Shared Savings.** Traditionally, government budget regulations dictate that if a government organization saves money on a line item during a fiscal year, it cannot shift the savings to another line item during the same year, and it will lose the budget for the following year. Unfortunately, such stipulations

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discourage entities from pursuing cost-saving plans, such as using a shared-services provider. To achieve shared-services goals, government leaders must adapt regulations to allow the sharing of savings. Part of the savings could be shared among the departments that receive the services to use on other high-priority efforts, with another portion of the savings allocated to the departments providing the shared services to invest in improving and modernizing their offering. Sharing savings would benefit not only the customer entities that use the services but also the providers.

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- **Central Funding.** Government leaders also may need to subsidize shared-services providers, at least initially. Tapping a central fund or finding another way to relieve government entities of the initial upfront investments and risk is critical to encouraging those leaders to step into the role. The Technology Modernization Fund (TMF) is an example of an innovative approach in the federal government to enable investments to modernize services. With confidence in the business case, the TMF loans federal agencies the funds needed to develop new technology. The loans have flexible repayment terms, and they can be repaid using long-term savings on operational and management costs.
- **Recognition.** Leaders should identify government entities that have taken on the responsibility of providing shared services and publicly recognize their achievements. Public acknowledgment can incentivize others to follow suit. But words are not enough. Taking on the administration of a shared service is risky, and it could be seen as having only potential downsides. Structural

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changes—such as altering the promotion criteria for some highly coveted operational roles to require success in reaching government-wide shared-services goals—could help reframe these ambitions to being crucial for overall career success.

Holding Providers Accountable

Even if groups are willing to take on the role of shared-services provider, for the system to work, other entities must be willing to give up their control and ownership of the services being shared and agree to use the providers. This is a move that can feel particularly risky when a group that is providing a shared service is underfunded or not at scale. For example, a provider may exceed the estimated transition time and cost, it may not be able to meet current requirements or performance levels, or it may not be able to meet new service requirements. Therefore, inasmuch as entities must be incentivized to host a shared service, they must also be held accountable for the outcomes—not only when the contract is due for renewal but also throughout the term. This is the only reliable way to encourage other entities to take advantage of the shared service.

> “Holding entities accountable is the only way to encourage others to take advantage of the shared service.

For their part, government customers should rethink the value that shared-services providers can contribute and the metrics used to evaluate their performance. Typically, government customers measure outputs—the response time at call centers or the processing time for employee requests, for example. Although these can be helpful, customers of shared-services providers should also use a more robust set of performance measures to assess outcomes.

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Such measures should include a provider's focus on improving its infrastructure and solutions, its continual optimization of the government's business processes, and its track record for bringing best-in-class ideas and technologies to the attention of government leaders so that they can continuously improve efficiency and effectiveness.

In other words, government customers should raise the bar on providers' performance and put the onus on them to continuously advance so their offerings are competitive. In addition, shared-services providers should be expected to continuously review and redefine the service standards to best meet the needs of government customers.

Government leaders can task procurement staffs with holding shared-services providers accountable. By training these employees to build accountability into contracts and service level agreements, government customers can ensure that providers meet expectations.

An alternative is for government leaders to establish a government-run marketplace of preapproved providers and solutions for a given function, where much of the vetting and setting of performance standards has already been done. The Quality Service Management Offices (QSMOs) (established by the US General Services Administration and operated by select federal agencies) were recently tasked with setting up such a marketplace to provide cybersecurity services, core financial management, grants management, and civilian HR transaction services. In addition to building the marketplace, QSMOs will institute a feedback model to ensure the continuous improvement of solutions and to drive the implementation of standards to increase efficiency and scale.

Together, better measurements to hold shared-services providers accountable for their performance and a marketplace for customer entities to access providers will help alleviate departments' risk and foster a competitive dynamic that ensures high-quality services.

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Sharing services is an effective way for igniting transformative change, but federal, state, and local governments still have unique barriers in place that prevent the full realization of their goal. By being thoughtful about what is a truly unique need, creating budget flexibility and incentives for providers, and engaging procurement staff to hold providers accountable, government leaders can overcome these obstacles and reap the benefits of cost reductions, improve standards of service, and reduce risk on behalf of citizens and other stakeholders.

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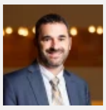

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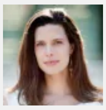

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